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Memo To: Board of Education
 Dr. Mary Pfeiffer, District Administrator
 From: Paul Hauffe, Director of Business Services *PH*
 Vicky Holt, Asst. District Administrator – Human Resources/Central Services *all*
 Date: May 1, 2013
 RE: Neenah Joint School District 2013-14 Budget – Draft #1

At their meeting on February 5, 2013, the Neenah Joint School District Board of Education was introduced to a “budget framework” that would be used to develop the 2013-14 District budget. Among the concepts that were included in the framework were salary and compensation plans, technology and major maintenance plans, and staffing estimates for 2013-14.

In light of ongoing and incomplete budget discussions at the State level and, to a lesser extent, the Federal level, some might consider it premature to develop a full blown budget document at this time. However, we feel it is important for the Board of Education to receive a comprehensive early view that identifies local decisions that have already been made and anticipates decisions, at other levels, that will be made soon.

KEY STATISTICS AT A GLANCE – 2013-14 Draft #1

	2012-13 Budget	2013-14 Budget	Dollar (\$) Change	Percent (%) Change
General Fund Expenditures	63,694,192	62,106,934	(1,587,258)	-2.49%
Total Expenditures	81,334,057	79,130,772	(2,203,285)	-2.71%
Total School Tax Levy	31,576,467	32,215,333	638,866	2.03%
Tax Rate/thousand (equalized)	8.94	9.12	0.18	2.03%
State General Aid	28,267,556	28,663,656	396,100	1.40%
Equalized Property Value	3,533,752,258	3,533,752,258	0	0.00%
Staff FTE	627.45	632.05	4.60	0.73%
Student FTE – Rev Limit	6,349	6,292	(57)	-0.90%

Pupil Enrollment

A variable that affects virtually all of the financial calculations of the District is that of pupil enrollment. School district revenues are based on a three-year rolling average of resident enrollment. Equalization Aid is calculated based on the number of students

enrolled in the District in the preceding year. Classroom staffing levels are determined, in large part, based on the number of students enrolled.

Although total enrollment has been relatively stable during the past decade, we are estimating a decrease of 100 students when we open the doors for the 2013-14 school year in September. Other factors notwithstanding, a decrease in enrollment will decrease the District's revenue limit and will eventually reduce the amount of equalization aid that the District receives.

The summer school program included in this draft of the budget provides a significant addition to the District's pupil enrollment count. This enrollment provides additional revenue authority and increases the District's equalization aid.

Open enrollment continues to create a bit of uncertainty as it pertains to budget development for 2013-14. During the current school year (2012-13), the District experienced a net outflow of 100 students. While the District's open enrollment history has not been consistent, we are budgeting for a similar net outflow of students in 2013-14.

State of Wisconsin Budget

Since Governor Walker proposed his 2013-15 biennial budget on February 20th, it has been the topic of much conversation at the State and local levels. The Governor proposed a two year plan which would allow for no increase in the per pupil spending limits designed for K-12 school districts. Furthermore, under the Governor's proposal, a one-time categorical aid received by school districts from the State in 2012-13 would be eliminated. The Governor's proposal did include a one percent increase in general equalization aid to K-12 education.

Although budget discussion at the State level is far from complete, the District must advance the development of its 2013-14 budget. The budget framework presented to the Board in February (before the Governor's proposal) contained a \$100 per pupil increase in the revenue limit. The first draft of the District's 2013-14 budget contains the same \$100 per pupil increase in the revenue limit. District administration believes that elected officials at the State level may increase the allocation to \$150 per pupil in order to advance student learning at all public schools.

While we also anticipate that there will be an increase in general equalization aid to public K-12 education, the formula and structure of this increased revenue is harder to project. Therefore, for budget draft #1 purposes, the equalization aid has increased slightly (1.4%) from the amount received in the current budget year (2012-13). Any additional amount of equalization aid that may be received by the District could go directly to reduce the local property tax levy.

Other Post Employment Benefits (OPEB)

The District has transitioned to a new post employment benefit program for all staff. Included in the first draft of the 2013-14 budget are the first year OPEB costs of thirteen

staff members who will have ended their active employment with the District and qualify to receive post employment benefits. The District will continue to budget for, and meet, the obligations to our existing retirees. As the District transitions to the new post employment benefit program, the annual costs of the program will decrease. The annual expenditure trend for all OPEB benefits is downward; we expect to spend \$150,000 less in 2013-14 than will be spent on OPEB benefits in 2012-13.

Health Insurance

The Neenah Joint School District has made - changes to its employee group health insurance program over the past several years. The combination of favorable premium increases from insurance companies, increased employee premium contributions, implementation of the health insurance buyout program, and movement to a standard High Deductible Health Plan (HDHP) have all contributed to a substantial reduction in the total cost of health insurance in the District. In fact, due to the ending of various labor agreements and a January 1st health insurance plan start date, the 2013-14 budget will finally reflect all of the recent changes to the District's group health insurance over a full twelve month period.

The changes to the District's health insurance program will continue in 2013-14. This time, however, the changes will be driven more so by the Federal Affordable Care Act of 2010 than by decisions at the state or local levels. With many major provisions of the Act expected to be enacted by January 1, 2014 and full implementation of the law not expected until 2020, the District is preparing for a series of mandates, subsidies, and credits that will need to be managed to minimize costs and create financial opportunities. With the assistance of our health insurance consultant, the District has started to study, analyze, and evaluate the various possibilities in employee health care for 2013-14 and beyond.

At the very least, the District will explore opportunities to bid out the health insurance program or pursue a self-funded health insurance program option. Our budget estimates for 2013-14 health insurance costs include some very favorable pricing. However, the difference between our fiscal year start date (July 1) and the health insurance start date (January 1) creates a challenge to make an accurate projection this far in advance. Employees will not be asked to pay an increased premium contribution in 2013-14. We anticipate that a similar number of employees (101) will utilize the District's health insurance buyout program. We also anticipate that total premium costs will increase no more than five percent. The District will also continue to contribute to each employee's Health Savings Account. Total health insurance costs contained in the first draft of the 2013-14 budget, including the District's contribution to the employees' Health Savings Accounts as well as the health insurance buyout payments, amount to \$7.55 million.

Other Expenditure/Revenue Adjustments Contained in the 2013-14 Budget

The significant dollar changes reflected in the budget are usually the result of changes in employee compensation, major maintenance, or technology spending. Following are some additional adjustments or assumptions that are included in the first draft of the 2013-14 budget:

- Net addition of 4.6 staff FTE (+ 7.6 faculty, -5.0 support staff, +1.0 administrator, +1.0 exempt)
- Allowance made for faculty, support staff, admin, and exempt salary adjustment
- Allowance made for faculty, support staff, admin, and exempt pay for performance salary adjustment
- Maintain minimum starting salary for faculty at \$40,500
- Open enrollment estimates remain at 2012-13 level (in and out)
- Natural gas budget reduction - reflect locked in prices and “normal” winter (-\$40,000)
- Reduction in State Handicapped Aid – less aidable expenditures (-\$165,000)
- Food Service Fund continues to be self-supporting; no transfer required from General Fund
- State Equalization Aid to increase slightly (1.4%) from 2012-13 level
- Increase in unemployment insurance costs (+\$30,000)
- Reduction of State Categorical Aid (-\$317,750)
- Levy property tax to the maximum permitted by law (including carryover)
- No levy for Referendum Debt Fund (Fund 39) – use Referendum Debt Fund balance for final payment
- Estimated additional District contribution to the Wisconsin Retirement System – 0.25% (\$37,000)

Technology

Consistent with the technology plan adopted by the Board of Education for 2013-14, students in grades 4 and 8 will receive iPads to enhance their learning experience. In addition, computer carts, as well as a number of iMacs, will be purchased for use at Neenah High School. This equipment, valued at \$475,000, will be financed through Apple Computer using a three year lease. Included in the 2013-14 budget is approximately \$725,000 to cover principal and interest on this lease as well as the three other leases that the District has initiated with Apple Computer during the past three years.

The District will also be purchasing outright over \$215,000 of computer equipment – iPads, chromebooks, and PC’s – for students at Neenah High School and Shattuck Middle School.

For logistical reasons, the lease with Apple Computer was completed in April of 2013. This was done to ensure delivery of the equipment in a timely manner and to allow the technology staff enough time to set-up, test, and distribute the equipment to the appropriate schools. The first lease payment will be made in July, 2013.

Major Maintenance

The 2013-14 budget contains a strong commitment to repair, replace and remodel sites and facilities throughout the District. As recently as the 2010-11 budget year, the District expended \$576,000 on capital projects to maintain district infrastructure. The first draft of the 2013-14 budget contains over \$1,975,000 of necessary repairs and replacements that

will enhance the life of buildings and facilities in the District. Due to the scheduling complications with many of these projects, the Board of Education had earlier authorized these projects for inclusion in the 2013-14 budget. The larger projects that will be completed include:

- Partial Roof replacement - Neenah High School \$991,000
- Boiler replacement – Horace Mann 355,000
- Classroom remodel – Neenah High School 130,000
- Window replacement – Administration Bldg 90,000

No debt will be incurred to complete these projects. In fact, several of these projects will generate additional savings through energy efficiencies and/or improve safety for students, staff, and community members.

(A complete list of all of the major maintenance projects scheduled for completion during this year is included in the budget document.)

Fund Balance

Much discussion has ensued regarding the District's current General Fund balance (Fund 10). Fortunately, the size of our General Fund balance provides the District with some financial opportunities that do not exist in other school districts. At this time, it appears that just under \$200,000 will be needed from the General Fund balance to balance the first draft of the 2013-14 budget.

Other than the General Fund and the Referendum Debt Fund, no fund balance will be needed to balance any particular fund.

Significant Events pertaining to the 2013-14 Budget Development

- ✓ Health Insurance Discussion (Affordable Care Act) - Ongoing
- ✓ Governor Walker's Biennial Budget Proposal – Feb 20
- ✓ Wisconsin Legislature State Budget discussions – Feb - June
- ✓ NJSD Early Authorization – Major Maintenance Projects – Feb
- ✓ NJSD Staffing requests – March
- NJSD staff negotiations (base wages) – May/June
- Employee Policy Manual updates (as necessary) – May/June
- Student fees and other revenues discussion – May/June
- Wisconsin Retirement System required contribution rate notice (2014) – September
- Student enrollment determined (Third Friday Count) - September
- Public hearing on proposed 2013-14 Budget - September
- District's Equalized Valuation and 2013-14 Equalization Aid determined - October
- Health insurance premium rates (2014) – October
- Insurance open enrollment period – November
- Adopt 2013-14 District budget and certify property tax levy – November

Summary

The District's 2013-14 budget development process has been under way for many months. As per usual, the Board of Education and District staff have reviewed and analyzed programs and staffing levels to ensure that the District's limited resources are being used in an efficient and effective manner. District leadership knows what level of financial commitment is needed to operate a successful 2013-14 school year. Although we have prepared this budget draft using reasonable assumptions and estimates, it must be stressed that there is a significant amount of information that is not known at this time, including:

- Pupil Enrollment
- Revenue Limit formula for 2013-14
- General Equalization Aid
- Full Impact of Affordable Care Act

Chief among the "unknowns" is the State Revenue Limit and corresponding Equalization Aid formula. Any change in the Revenue Limit from our projected \$100 per pupil increase would primarily affect the amount of Fund Balance, if any, that would be needed to balance our 2013-14 budget. Any change in the Equalization Aid formula, which is extremely likely, would likely lead to a corresponding change in the District's local property tax levy.

Although the health insurance budget planned for 2013-14 is very positive, much uncertainty over the final numbers still exists and will continue to do so until at least October of this year.

As presented, the first draft of the 2013-14 budget produces a local property tax levy increase of 2.83%. About the only thing we can say with some degree of certainty is that that this number will change before the final levy is certified in November, 2013.

If you have any questions regarding the first draft of the District's 2013-14 budget, please contact Paul Hauffe (751-6800 X107).